

Of Course You Qualify!

By Thomas Larson

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Mario is a recent immigrant from Mexico, and he's typical of homeowners facing foreclosure. He doesn't want me to use his surname; he's ashamed of getting behind on his payments. He thinks he's been irresponsible, and he wishes he had saved more money before buying. "If you don't have the skill or the knowledge to make money to pay for a house," he says, "it's better to wait." The problem is, Mario had neither the skill nor the knowledge three years ago when New Century Financial qualified him and his wife to finance a \$410,000 home in Oak Park, with \$17,000 down.

Suddenly, he and his wife were arguing, pointing fingers. Today, they have separated and may file for divorce. "There's too many problems right now," he says. "I think I'm going to lose the house." One strategy for Mario is to try to rent the three-bedroom, one-bath home for enough to cover the monthly payment. He hopes that if he gets a tenant, Mario may be able to live in a room in the back of the house. So far he has no takers. He may also try to sell the property. But that hasn't happened either. He has neither money nor motivation to fix the place up. Getting behind on his mortgage payments has made him listless.

Where will he go if the bank forecloses? "I don't know. Maybe the mission."

Mario makes \$3000 a month as a handyman, doing plumbing and electrical. He pays \$400 a month on a 2003 car, so mortgage and car payment were eating up his income. Even with a job, his lack of equity and lousy credit mean that he can't get anyone -- he's buttonholed every broker and banker he can find -- to refinance his loan. Once he believed, per the loan broker's instructions, that when his loan went "up a little" he could refinance. But such an option for someone who has, as the euphemism goes, "less than perfect" credit is unlikely. Mario knows now that he was put in a subprime loan, and he feels angry, cheated, and helpless.

And that's as far as Mario wants to go. Talking by phone, he retreats into one-word answers. His voice is disappearing; he wants off the hook. Most people like Mario who are losing their homes marshal terse responses, blame their brokers, and testify bitterly to what the San Diego housing community is undergoing this year -- an epidemic of foreclosures. Foreclosure is the tragic end of predatory lending, lax regulations, and fraud on the part of some brokers and lenders, as well as ignorance, self-delusion, and misplaced trust on the part of many buyers. When borrowers in trouble see how blind they've been and how badly they've been taken, it's no wonder they don't want to talk.

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A few brave souls, however, are speaking up. One is Joaquina Abrego, who wants everyone to know her name and her story. In June, Abrego, 60, spoke to reporters at a media event staged by the local chapter of Acorn, a national advocacy group that represents low- and moderate-income families on issues of housing, employment, and social justice. Acorn's loan counselors intervene between the borrower and the lender when the borrower is behind on payments. Before reporters and cameras, Abrego is wearing a fire-engine red coat with an Acorn button; sign-waving supporters are behind her. She stands in front of her home of five years on D Avenue in National City. She stares into the Fox 6 News lens, her expression frozen and intense, until the cameraman asks her to relax.

Abrego, who's lived in National City all her life, and her husband bought their two-story wooden house five years ago. It's an unusual, Christmassy-looking home, painted dark red and dark green. They got it after "many years, sacrificing, working two and three jobs." In 2002, the home cost \$445,000 and was financed with no down payment. In 2005, once her payments had gotten onerous, a friend told her to contact Tony Balistrieri, a loan broker with First Advantage Financial, who could help her refinance her loan. "He told me he is going to lower my payments and everything is going to be fine. It was so beautiful. I believe him; I trust him. I went to sign the papers, but I thought something was wrong." Abrego recalls Balistrieri rushing her, saying that if she didn't act, she would miss a very low rate.

Balistrieri promised Abrego he'd reduce her \$2045-a-month payment. "He call me up, and he say, 'How much do you want to pay? Nine hundred [a month]?' And I say, 'Nine hundred would be fine.' " At First Advantage's office in Mission Valley, she read the loan documents (no one explained them to her), then panicked, seeing that the loan would rise in increments to \$3700 a month. She called Balistrieri from the office.

On the phone, Abrego recalls, "He say, 'Just sign the papers. Don't tell anybody. Sign the papers.' " Their agreement was " 'just between you and me.' 'Are you positive?' 'I'm positive, 100 percent.' He was a loan officer, so maybe he could do it." In short, Abrego trusted Balistrieri, and that was the last time she spoke with him.

"I signed and came home and gave the papers to my husband. He read them and ended up having a heart attack and [later] a stroke. He was in the hospital, and he said, 'What are we going to do now? Our payments are going up. We'll lose our house, everything. We'll be in the streets.' He was in the hospital for three weeks and lost his mind. He's not able to think for himself or do anything. Sometimes he doesn't remember things. My life changed from bad to worse."

One year later, Balistrieri sent Abrego a bill for \$3700 for his services, which she's never paid. She believes this was pure intimidation: he'd already received his commission as part of the refinance. Even though Abrego owns two restaurants -- Mama's Grill in Old Town and El Cajon -- she doesn't make enough to keep up with her mortgage.

This summer, Abrego's story got much worse. When I visit on a Saturday in July, she is on the couch, crying. She's depressed, she says. Clutching a California Lottery ticket, she tells me that First Advantage sold her loan to Ocwen, a mortgage lender in West Palm Beach, Florida. (Currently Ocwen faces one class-action lawsuit in federal court, based on 57 cases, and 331 individual lawsuits in Florida: all allege fraud.) Because Abrego has not made her mortgage payment for three months, Ocwen sent her a Notice of Default: her house would be sold at public auction, July 25, on the steps of the county courthouse. Abrego owes \$44,746 on the loan. For \$2600, Ocwen will stop the sale, what's called a "foreclosure rescue." But even that sum is nearly impossible for her to raise. In an 11th-hour move, Acorn is trying to secure a Federal Housing Administration emergency loan for Abrego; a promissory note would pay what she owes to date and reinstate her loan with Ocwen.

According to Bryan Piccolomini, a broker and the personnel director with First Advantage Financial, Balistrieri left First Advantage in February 2006, a few months after Piccolomini started. The California Department of Real Estate lists Balistrieri as having no disciplinary action; there was a "conditional license suspension" for "unfiled education requirements" between September 2005 and January 2006; these requirements were met and the suspension was removed. Why did he leave? "I can't tell you," Piccolomini says, "but he went somewhere else. He was an independent contractor." Piccolomini does admit that complaints surfaced from clients with whom Balistrieri worked. But, Piccolomini says, "He wasn't here long enough for me to see a pattern of complaint." He doesn't know anything about the Abrego case: "Maybe Tony didn't fund the loan through us." (I have tried to track down Balistrieri through his current employer, Home Capital Lending, but neither he nor the company has returned my calls. I have referred Abrego's case to the city attorney's office, which is investigating.)

"I don't know if Tony fits this profile," Piccolomini continues, "but there are people in our industry who make money during a refinance craze. Much like day traders, a lot of people went in and out" of mortgage brokering in the mid-2000s. "I know there were a lot of people buying advertising time on the radio and sending out mailers that had boiler-room operations that no longer exist and had workers who were not very well trained."

At the courthouse, July 25, 169 foreclosures are offered for sale. The majority are either postponed or canceled: deals have been struck between lender and borrower, in some cases, that morning. Abrego's property is on the block, put up by Alliance Default Services. The auctioneer announces the address, details the standard restrictions -- "sale of this property is on an as-is basis" -- and states that he has an "authorized bid" of \$1000. "Are there any qualifying bidders?" he asks. Two men raise their hands. "Again, I have an opening bid of \$1000. Are there any other bids?" One bidder says, "\$351,000." The other does not counter. Going once, twice -- sold. This price is nearly \$100,000 less than Abrego paid for the house in 2002. She and her husband are now out of the house, renting an apartment.

First-time home buyers like Mario and Joaquina Abrego typically get one shot at owning a home. If they make payments faithfully, they will build equity, on which so much is

possible in America. But if they fall behind -- whether the fault is theirs or the tactics of predatory brokers, or both -- they may never get another shot.

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Jim Bliesner is the director of the San Diego City-County Reinvestment Task Force. The 15-member committee, whose cochairs are city councilmember Tony Young and county supervisor Ron Roberts, meets monthly at city hall to monitor local banking practices and develop strategies for reinvestment in low-income neighborhoods. This year the task force has heard the sobering testimony of housing advocates and real estate analysts as well as the heartbreaking stories of people facing foreclosure. Often those who testify are in tears, often they can't finish, always they stretch beyond the allotted five minutes. In June, one woman, her voice quavering with anxiety, says, "I don't want to sound like I'm on the pity pot, but I can't pay my \$4000 mortgage." The astute Bliesner has come up with a metaphor for the foreclosure process: "It's a lot like a glue sheet. Every time you put one hand down, you get stuck. Then you put another hand down to try to push away. But every time you try to push away, you get stuck even more."

The stickiness is as bad as it was in the mid-1990s, during the last slowdown in the local housing market. DataQuick Information Systems has found that for the first half of 2006, the number of foreclosures was 445; for the first half of 2007, it was 2896. That's a 551 percent increase.

What's happened in San Diego is this: during 2005, when home prices were setting records every month (the high was reached in November 2005), it seemed that anyone buying, selling, or financing a home could make money. Brokers made commissions selling loans, realtors earned fees buying and selling houses. Wall Street made money offering "mortgage-backed securities," or bundled loans, as investments. Developers made money supplying new homes, whether in South Bay or Temecula, to people who'd drive two hours to work. Even people buying homes were making money by "flipping," or selling quickly as the price went up. With a rising housing market, with a shortage of new homes, with more buyers qualifying, any investment yielded results. No matter the size of your mortgage, if you got in over your head, you could -- you were told -- refinance. At a lower rate! It's a classic predatory tactic: the broker pushes a homeowner to refinance a loan, which may or may not lower the payment. By taking advantage of the home's increased equity, the broker can collect a commission. For a few golden years in the mid-2000s, all this easy money was true.

For San Diegans, so much of the home-buying economy is cockeyed. Our median income is about 3 percent below the state median, while the home prices are among the highest in the state. In San Francisco, where the home prices are also among the highest, the median income is about 15 percent above the state median. According to the housing affordability index -- a measure of whether a family's income qualifies them to buy a home -- only 9 percent of San Diegans have an income high enough to afford a home.

Enter the subprime loan. Contrary to conventional wisdom, these loans are typically not *sought* by borrowers. Rather, people are pressured to take subprime loans by brokers who stand to earn high fees on their sale. Subprime "credit products" are marketed to consumers as "choices." All sorts of varieties. Negative amortization. No down payment. Stated income. Self-employed, blemished or nonexistent credit, consumer debt, asset poor -- none of it matters. Only this: can you qualify? Even people like Mario, who had a low FICO score, qualified -- because the loan broker *got* him qualified. (A FICO score, the most widely used determinant of a person's creditworthiness, is considered good when it's 680 or over. The idea behind subprime loans is to give people with FICO scores in the 500s the "opportunity" to buy a home.)

In the last decade, prime loan interest rates have been in the 5 to 6 percent range, subprime loans in the 8 to 9 percent range. Subprime loans almost always come with adjustable rates. One popular subprime adjustable-rate mortgage is called the "2-28." This loan features a low two-year "teaser" rate that is fixed, for example at 5.35 percent, to get a borrower hooked in. After two years, however, the rate starts to adjust, or to reset, to 8, 10, even 11 percent.

Another form of credit is the negative amortization loan, which some are calling the "sicko" loan of the credit industry. Most bank loans are amortized. Every month the borrower pays part of the interest and the principal. According to Piccolomini, with a negative amortized loan, the borrower pays less than the full amount of interest each month. The catch is, the difference between the amount paid and the amount owed is added to the balance of the loan. Every month, the loan amount grows larger. A negatively amortized loan is designed for an upwardly moving real estate market.

"Essentially you are borrowing against future equity," Piccolomini says, "until your cash flow is such that you can afford to refinance the loan or pay" the full payment. "The problem is, brokers put people into homes" with a negative amortized loan "just to get the person qualified. And that was crazy." Depending on how the loan is written, the reduced monthly payment may last 1 month or 60 months. But, Piccolomini says, it can't last forever. He cites a contractual rule that once the balance of the loan gets to be 110 percent of the original loan amount, the loan must reset. When the loan resets, the monthly payment can rise as high as 50 percent.

Many subprime adjustable-rate loans -- following the boom in broker sales, the real estate market high, and the refinance craze of the mid-2000s -- are now resetting. Payments are leaping \$300, \$500, \$1000 a month. Defaults are hitting new highs in Mira Mesa, Southeast San Diego, Spring Valley, Oceanside, Vista, Escondido, and Chula Vista, areas where minorities dominate. The number of default notices, auction notices, or foreclosures in June in San Diego County was, according to Realty Tree, 19,069. The highest concentrations are in Southeast San Diego (92114) and San Ysidro/Otay Mesa (92154).

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In 2000, Inez (not her real name) decided she wanted to buy a home. It would be the third time she had bought a house, so she knew the ins and outs of financing and making payments. Her third was, she now admits, way too much house for one person. Just as she got ready to purchase, she changed jobs, lost her sister, and was facing sudden financial woes. She still wanted the home and found a real estate broker who, by speaking her native language, Spanish, shared a cultural identity with her. Inez trusted the broker, and the broker took her to World Savings.

Before Inez purchased her third home, she had saved \$150,000 for a down payment on the \$369,000 house. With 40 percent down, she believed her payments would be manageable. They were, temporarily. But with home prices rising steadily through the 2000s, Inez found that as her equity increased she could refinance her loan and get cash. On the advice of her broker, Inez, who needed money for bills, started a series of refi's. She calls this "my bad." She was digging her hole even deeper. The more she refinanced, the more fees she had to pay and the more her loan amount rose. With each refinance, World Savings would, she says, "put me back to an adjustable loan." Her monthly payments leapt, first by \$700, then by \$300 more.

Inez was astounded to discover that each time she read the new loan documents, World Savings was not accurately listing her income. (This is what's called a stated income loan.) The documents stated her income was \$10,000 per month, "which is not true at all. This was to qualify me" for the refinance, "even though they knew I didn't make that much money. They kept pulling me back" to the same loan, one with an adjustable rate. She tried to go to another bank. But World Savings required a \$9000 penalty for early payment of its loan. According to Inez's figures, in 2000 she financed some \$219,000. As of this summer, the amount she owes the bank has grown to \$500,000.

Today, she is angry that World Savings will not rewrite the whole loan at a fixed rate. Her savings have been depleted; she's advertising the house, but only by word of mouth and on craigslist. In late June she tells me that even though she continues to pay her mortgage, "July looks grim and August is looking very grim."

How has she handled all this?

"I'm trying to keep my balance. My daughter was offering to help me. She has a perfect credit score, and she was offering to cosign for yet again another refi. But she's 23 years old, and I'm wondering what would be the risk for her." She laughs an embarrassed laugh. "It's a roller-coaster ride, and I'm hanging on by a prayer." Inez says she just wants "fairness. I want people to get what they ask for instead of being fooled into something again and not really respecting what we really want." Her advice for others *before* they buy a house is to use a credit union; find out about penalty charges; ask questions; get a fixed rate, never an adjustable.

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The most recent map of San Diego defaults and foreclosures reveals that subprime loans are concentrated where ethnic groups -- Vietnamese, Filipinos, Mexican Americans, African Americans -- predominate. One of the major subprime lending areas is EastLake, a subdivision in Chula Vista with a large Hispanic population. Housing advocates wonder whether what has happened in EastLake is the result of brokers and lenders preying on people whose lack of English-language skills makes them susceptible to subprime abuses.

"Loan steering" -- its legality remains in question -- occurs when people query a developer about home sales, and the developer steers them toward a particular broker or lender. The lender may, after putting the person into a subprime loan, give a kickback to the developer. Another abuse that seems to follow only low-income people is for lenders to steer them into a subprime loan. No law exists to require lenders to tell a borrower that he or she qualifies for a loan at a low fixed rate.

Studies by the National Training and Information Center, a resource for community organizations, finds that lenders who specialize in subprime loans show up more often in ethnic communities, while lenders who offer prime loans are in affluent or white suburbs. In 2002, in Cleveland, Ohio, 37 Citibank branches specialized in subprime loans; only 1 branch wrote prime loans. And yet Fannie Mae -- with Freddie Mac, one of two publicly traded, federally chartered corporations that buys pools of loans -- has found that nearly half of all subprime borrowers would qualify for a prime loan. (Foreclosures for prime loans or Alt-A loans, made to people with slightly blemished credit, are still uncommon; the foreclosure rate on subprime loans is about 20 percent nationwide.)

Moreover, the Federal Reserve Board has shown that African-American and Latino borrowers receive higher-interest loans than their white counterparts. People assume that their neighborhood lender is their only source. Problems arise when people whose income and FICO score qualify them for a prime loan are steered into a subprime loan or when people who can't afford a house are given a loan. A high FICO score helps a borrower get a lower rate on *any* loan -- house, car, boat, home equity, credit card. (At *myfico.com*, you can check your credit score against the daily rate for any of these loans.)

Low-income people and recent immigrants are dumped into subprime loans because of their lack of English skills. In general, they don't complain, not because they don't feel cheated but because drawing attention to themselves as recent arrivals can be scary. Ruben Arizmendi, a business litigation lawyer, tells me that in our city's Latino community, loans are sold to Spanish-speaking buyers by Spanish-speaking brokers. But when the loan documents, written in legal jargon, arrive for review and signature, they're in English.

In 2005, Vino Pajanor, a lawyer first licensed to practice in India and a green-card holder, went to buy a home in EastLake. His FICO score of 754 was in the 90th percentile. When he visited the lender, Pajanor asked what kinds of loans were available. Without bothering to ask about his income or his FICO score, the lender offered him an adjustable-rate subprime loan at 8 percent. Pajanor was outraged. He told the lender that his 754 FICO score and his lawyer's salary qualified him for a prime loan at 5.35 percent,

not 8. The lender agreed at once. Pajanor says that initially he thought, " 'It's just me. I've only been in the States five years. I didn't have enough credit history.' But then I started thinking, if an educated person like me could have been prey to a subprime loan," then the same thing would certainly happen to those who don't know how to challenge the supposed authority of the lenders.

Working for the law firm Higgs, Fletcher and Mack, Pajanor heard complaints from the Filipino community. Soon, as the vice president of the South Asian Bar Association in San Diego, he began investigating. He learned that certain builders and lenders were "preying on their own kind. It was prevalent in the EastLake area." Filipinos would prey on Filipinos, speaking Tagalog, discussing Filipino culture. He notes that "the psyche of the minority" is easily preyed upon by a person of the same ethnicity. According to Mary Scott Knoll, executive director of the Fair Housing Council of San Diego, ethnic targeting is a "clear violation of the Fair Housing Act." She says criminal charges are hard to prove, but "there are civil remedies" available.

Under the umbrella of the Housing Opportunities Collaborative, Pajanor has held mini-summit meetings with law enforcement agencies, ethnic-based bar associations, and the Department of Housing and Urban Development. The last has collected reports on Hispanic lenders, some of whom may have used gang members to threaten people to sign up with certain Spanish-speaking brokers. San Diego housing advocates are telling people how to spot unscrupulous lenders and staffing monthly home clinics to intervene, especially with those facing foreclosure. One resource for people having difficulty with their mortgages is the hotline 888-995-HOPE.

Eddie Price, head of the San Diego Urban Economic Corporation and a housing advocate, has seen firsthand what's happened in his neighborhood, Valencia Park. He's seen homes idling in foreclosure. The weeds sprout, the paint chips, the windows crack. Foreclosure brings blight. "I don't want to see that when I come home. It's affecting the community. You have these manicured lawns; then you see four-foot-tall grass." What really bothers him, though, is how the subprime crisis is breaking up neighborhoods. A family with four sons was renting a home up the street from Price. Price's son had grown up with their sons. But when the landlord defaulted, the family was evicted. "My son lost four friends. Just like that. That's affected him."

Price is fed up with the newspaper analysis and number crunching he reads: "What about the people? Everybody's concerned about a number, a product, a portion of their inventory. Where are these people, turned out of their condos, going? And what about the people who haven't yet lost their homes but are crazy as batshit trying to keep it? Husbands and wives aren't talking."

Unprompted, he continues. "This is a shame-based crisis. So many homes could have been saved if the husbands and wives could've talked about it. But they tore up the [overdue notice] when it came. They didn't return the phone call from the mortgage company. Because they're ashamed -- because now they've got an Escalade sitting in the driveway. It's really hard to get the story from people because of the shame. They got

caught up in chasing the American dream because it finally became available to them. By hook or crook, however it became available, it became available. They took advantage of it."

Price thinks the nonprofits that are on the front line of dealing with foreclosures need psychologists on staff. "Something is going on with these people's psyches. This is going to affect families for generations. Some kids won't be able to go to college." He also thinks strict regulations -- like the kind that govern medical and legal malpractice -- are critical. Most people, wrongly, trust mortgage brokers the same way they do food sellers, for instance. "We think the food won't poison us or a doctor who's operating on us for a tumor is honest. Why do we trust brokers, especially when they promise us the sun and the moon?"

As defaults grow, many looking to purchase a home are "scared to buy," Price notes. Prospective buyers think any loan is fraught with hidden charges and sudden changes, things that are not disclosed to borrowers and certainly beyond their understanding. "The biggest question is, what's my payment? And what happens if it goes up and I can't pay?"

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Often subprime loans boil down to financial institutions lending money to people they shouldn't lend to, who can't afford the payments, before or after the rate resets. One California housing analyst has shown that nearly 70 percent of subprime borrowers who end up in foreclosure begin defaulting *before* the rate resets. Foreclosures typically peak in the 15- to 20-month period. Most borrowers realize sooner than later that they are in way over their heads.

One casualty of sudden foreclosure is Andy Sobel, who's become a reluctant local celebrity. His year-long trial has been featured in several national publications, among them, *USA Today*. Such scrutiny has made him wary of rehashing his tale with another reporter. Too often, he's been bit once his story is published. People call him a "crybaby," a "bad example," "irresponsible." He "should have known [his loan] was too good to be true," and "people get what they deserve." It's hard for Sobel to open up, having received phone calls at 6:00 a.m. from strangers who castigate him for defaulting on his mortgage.

Sobel is a community organizer for the nonprofit San Diego Organizing Project, a group that works through church congregations on issues of health care, education, and, increasingly, housing. In 2004, when the condo market was expanding, he bought his condo near San Diego State for \$240,000. Over coffee, Sobel, who has a monologist's breathless energy, tells me that having been a "devout renter all my life," the decision to buy, at 48, was huge.

Moving here recently from Texas, with excellent credit and a full-time job, Sobel still worried that because of the high real estate prices in San Diego he wouldn't qualify. The broker told him, Sobel recalls, "We'll get you into something." It's a mystery, Sobel says, who does and doesn't qualify for a loan. Why, with his credit and his income, he was

automatically put into a subprime loan instead of a fixed-rate he can't fathom. It was totally unfair, he says. The lender, Express Capital Lending, wrote him a 2-28 subprime loan: 2 years at 4.85 percent and 28 years at a much higher rate, one that would fluctuate with an index, such as the 12-Month Treasury Average Index. Unbeknownst to him, this was an interest-only loan. Sobel put down 5 percent, \$12,000. Of the remaining \$228,000, the lender financed three-fourths of the loan, \$171,000, with the 2-28 loan. The remaining \$57,000 was financed as an equity line of credit with Bank of America; this loan was adjustable from the get-go and went up at once. When he moved in, in 2004, his monthly payment, including a modest homeowner's association fee, was \$1350. "Doable," he says.

Sobel quotes the broker as telling him that if he got in trouble, " 'All you do is refinance in two years,' so he's making it sound normal, common, to refinance. He didn't say, and I didn't ask," Sobel admits, "exactly what refinancing looked like. Or what the implications are. What happens in two years? How much does it jump up? What happens if interest rates go up? The idea of a teaser rate -- you don't understand that either."

In 2005, Sobel was able to get his line-of-credit loan fixed at 7.5 percent, which he was happy with. By now, his monthly payment was \$1700, which "was pushing my envelope." Sobel's broker reminded him that before his mortgage loan was going to reset, he needed to shop around. The reset was coming in July 2006, so in May he began wondering what his new payment would be. He figured it would shoot up to \$2100, roughly two-thirds of his income, leaving him around \$1000 a month to live on. "I realized I couldn't live on that. I couldn't fix my car or buy groceries. I knew I was in trouble."

Sobel went to Countrywide (it had bought the loan from Express Capital) and Bank of America, three months ahead of time, and told them, "I will not be able to pay after July." He says they were "unwilling" to talk to him until he was "in nonpayment. That was mind-boggling." Sobel put his condo on the market immediately. But with condo conversions running wild, the market had gone flat. He listed it at \$225,000 to \$240,000, and in three months, two people came by. He took it off the market. He tried to refinance it. But nobody would help him: he had negative equity, interest rates were high, and his salary was too low. The only refi available would mean a new monthly payment of \$2300. At Washington Mutual, Sobel found a loan called an "option ARM," which "you adapt to fit your lifestyle." Known as pick-a-pay, you make one of four payments: the first is the full payment of interest and principal while the fourth is a low payment whose difference from the full payment the bank adds onto the loan, that is, negative amortization. "That's just digging the hole deeper."

Last December, Sobel quit making payments on his mortgage. Today, he still lives in the condo, though he expects the marshal will throw him out any day. He keeps trying to negotiate with Countrywide and Bank of America, getting advice from other banks, brokers, accountants, and pro bono lawyers. But nothing changes. He's listed the property again, this time, \$165,000 to \$195,000. "Which is sickening," he says, a price almost one-third below what he paid. (How much has the market dropped in three years? Sobel says

he's seen one condo conversion in his neighborhood selling for \$103,000!) Selling the home for less than what is owed is called a short sale. Sobel had one offer at \$175,000, which is \$53,000 short of what he owes. But one attorney told him not to take it. Because of the line-of-credit loan, it would be better to let the banks foreclose and fight over the money.

The emotional difficulties are enormous. "When I first realized what was going on, it was really hard to do anything. It was such a psychological..." His voice breaks off. "I've never not paid a bill in my life; I balance my checkbook to the penny. You feel like an idiot. You feel stupid, taken advantage of. It shifts your perspective. It's really an awful, awful, awful feeling." His anxiety mounted when Sobel tried to "do the right thing" by contacting the lender ahead of time. "I'd go through these periodic depressions. Every time I have to do something, all the emotions come back. It's a time suck. All this has to be done from nine to five. I was on the phone for days on end." His job allowed him to work nights and weekends. "It's a horrible thing *not* to pay a bill. A lot of people don't understand what that feels like. Also to think that the banks will be coming after me," which they may do, garnishing his wages on the line-of-credit loan for years. "It makes me wonder if I should quit the nonprofit world and go make a boatload of money someplace."

Of late, Sobel's been aided a lot by local housing advocates such as Community Housing Works and the advice of their volunteer lawyers. "When they help, you don't feel so alone." And yet his days still revolve around making phone calls and waiting for responses. One reason it will be hard to start over is that his credit is shot because he's not been paying his line-of-credit loan. Two months ago one of his credit card companies canceled him "out of the blue." Even if Sobel has first- and last-month's rent, plus a deposit, a credit check will likely keep him from renting all but the worst apartments.

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In June, in the chilly air-conditioning of the Tubman-Chavez Multicultural Center, some 67 families have gathered for help with foreclosure. The four-hour event, put on by the Housing Opportunities Collaborative, an umbrella group of community housing advocates, and the Department of Housing and Urban Development, features individual consultation: legal aid attorneys who screen cases for fraud; mortgage specialists who examine loan documents; and counselors from nonprofit groups who offer mediation or help find solutions for homeowners headed for foreclosure. Awaiting an appointment, the couples and individuals listen to mortgage lawyers, consumer-fraud attorneys, and credit analysts talk. The group, forced to learn for themselves finally, is quite savvy about what they're facing. People ask well-informed questions throughout the day, in some cases, having spent hours on the phone with any number of nonprofit housing groups, pro bono attorneys, the "loss mitigation" departments of lenders, and, the latest, information gatherers in India. "I'm trying to get through to my lender in Irvine," says one exasperated woman, "when all of a sudden I'm sent to India."

Privacy is the watchword. Myrna Pascal of the Department of Housing and Urban Development announces that the press "may be in the room" (I am) and people will be called for consultation only by their first name. To keep the attendees in their seats for the long wait, the organizers have provided goody bags with water, snacks, information, and complaint forms.

Written complaints are key. Because the subprime meltdown is just beginning this year, there are no local investigations yet, say both Kristine Lorenz, San Diego deputy city attorney, and Dennis Dawson, fraud attorney with the state attorney general's office. Lorenz notes that borrowers can be "fraudulently induced to sign up for a loan" rather easily; they might be promised one thing orally or in an ad, then sold something else when they sign the loan documents. Her office can help bring criminal and civil cases against brokers and lenders, but, she says, "I need you to come forward." Weeks later, Lorenz tells me that she has received only a handful of complaints, "a lot fewer than I would have thought."

Under the City's jurisdiction, predatory lending is a misdemeanor. One unfair business practice is the misleading ad. A broker or lender tells a client, as we saw with Joaquina Abrego's case, that he can lower the interest rate with a refi, which may be possible. But with additional fees and the adjustable rate, the monthly payment actually goes up. Victims of such false promises can seek restitution. But, Lorenz stresses, these cases are hard to prove: even if the broker or lender lies, when the city attorney's office investigates, "The paperwork appears to be in order. The issue is, it was an oral misrepresentation," among the hardest things to prove to a jury. "Well, you signed it," the defense can argue. In one case, the state attorney general successfully sued Ameriquest for predatory lending practices. "However," Lorenz says, "there were insiders, people who had worked for the company, coming forth and saying, 'Here's what I was told to say.' We're looking for patterns" of misrepresentation in San Diego. "But it's difficult to prove without someone on the inside."

Dawson states that the thing borrowers who have defaulted on their loans must watch out for is a buyer who specializes in foreclosure "rescue." As the subprime crisis worsens, these so-called foreclosure consultants are popping up everywhere, on TV and in newspapers. "Anyone who tells you that they can help you avoid foreclosure but they need money, say a few thousand dollars, up front" is lying. Dawson wants to know who these scammers are. The only way to stop them, he says, is for victims to file a complaint.

At one point, Councilmember Tony Young stops in to address the crowd, which has thinned as people's names are called. Young says, with a tad of religious fervor, "I believe lending practices in San Diego have not been fair." In fact, he says, predatory lending is motivated by "institutional racism -- and I don't throw that term around a lot but use it only when it applies to something like this. And it applies."

One of the big problems on the enforcement front is that jurisdictions over mortgage fraud overlap: five entities -- the city attorney, the district attorney, the state attorney general, the state Department of Real Estate, and the state Department of Corporations --

may together or separately bring a case. Borrowers who feel defrauded don't know where to turn, don't know which complaint form to fill out.

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And finally there's Richard Whitmore, a lovable, difficult 72-year-old park ranger for the City of San Diego, who, along with his wife Cathy, is in the throes of a foreclosure, messily complicated by a trusted friendship and unending litigation. "Everyone knows me as Ranger Dick," he says. His hands, calloused by hard work, rest on a table at the office of Derrick Luckett, a realtor in Lemon Grove. I've been tipped off to Ranger Dick by Luckett, who is angry that the couple is losing their home. "Clearly," he says, "somebody's taken advantage of these two -- who should have never been given such a ridiculous mortgage."

Though it's Ranger Dick's day off, he's dressed in his park outfit: Smokey the Bear hat, brown shirt, green shorts, white socks, black street shoes. Ranger Dick, who created a canoeing program at Chollas Lake, is now three days a week and in his 45th year with the City of San Diego parks department. He has a waterfall-long gray beard; his voice is husky and excitable. He and Cathy lived in the homestead, as he calls it, for three decades, paying off their original loan. The 80-year-old home is handmade and sits on a 182-by-182-foot corner lot in Lemon Grove. His wife, who worked for the district attorney's office for 29 years, is retired and disabled.

For years, the City of Lemon Grove has been on Ranger Dick for numerous outside and inside code violations. "Now I admit it; I'm a pack rat. Inside, it was unhealthy. It was also a fire trap. I'll admit it." (Ranger Dick takes 30 minutes to detail his litany of complaints against Lemon Grove: "They made a lot of money," he says, "off of taking us to court.") Later, a tour of the homestead reveals problems, for which, Ranger Dick concedes, Lemon Grove has had a case. The interior was once stunning, with knotty pine paneling and hardwood floors. Those floors have now buckled. The ceiling is open here and there because of a recently botched roof job; the rain's come in. The back yard features a pile of some 20 doors; a line of rusting washers and dryers; heaps of plastic that are bleached translucent by the sun and stacked beside the outbuildings, the trailers, a dead lawn mower, and more.

In 2004, Lemon Grove forced him and his wife out. The pair found a nearby duplex and lived there for nearly a year. During that time, Ranger Dick fought his ouster and borrowed money against his equity to try and fix the homestead. Eventually he got in touch with Craig Lake, a realtor, former Lemon Grove City Council member, and boardmember of the Lemon Grove Chamber of Commerce. Lake, with much creative financing, helped Ranger Dick and Cathy buy a triplex across the street from the homestead. The triplex cost \$866,000 and includes three rentals. Ranger Dick says that he "figured the rent" from the triplex, about \$4300, "would pay the lion's share of the mortgage." He and Cathy would live in one of the rentals, the studio, and help with the payments.

The financing went like this: The value of the homestead was \$300,000, so Ranger Dick got a \$100,000 loan on his equity. (His goal was to use some of this money to fix up the homestead -- he wanted to keep it -- but a series of building nightmares, including the botched roof, has left the place severely scarred. In no time, most of that loan money was gone.) Next, Ranger Dick got \$125,000 from his retirement fund with the City of San Diego and from cashing in Cathy's IRA. Lake then found a subprime home loan for about \$720,000. That loan, "off the Internet," was adjustable and interest-only; it began at 7.77 percent and would jump, in two years, to 9.99 percent.

By the time escrow closed last October, Ranger Dick and Cathy were facing, for all their loans, an \$8400 monthly bill. To make matters worse, he had to pay back the money he borrowed from his city retirement fund. That sum comes out of his paycheck and leaves him, every two weeks, with \$10. They are surviving on Cathy's retirement income, \$2100 a month. For a few months, they paid with savings from a separate savings account but then had to stop. They haven't made a payment since January. Even though the triplex is in foreclosure, Ranger Dick and a savvy new realtor have managed to delay a final sale. It's been on the market all summer -- "I'll take \$700,000 for it," he says -- but so far no one's made an offer.

Ranger Dick says Lake promised that he and his wife would have reasonable payments, close to \$4300 rather than \$8400. Did he read the loan docs? "No, I didn't read the loan docs. We signed the papers without reading every word." Did Lake explain the loan to them? "No. He was managing everything, taking in the rent, paying the utilities." Ranger Dick says that Lake told him, "After we had shown a year's good faith" -- paying their mortgage in full and on time -- they "could refinance it." But once they missed a few payments, this option was not possible. (Another problem was a "tenant from hell" who stopped paying her rent, started a lawsuit against Ranger Dick, and reported the couple to Adult Protective Services.) "It's true," Ranger Dick says, that "Lake made \$26,000 off the sale of the triplex. But he's a guy like me with a big heart who wants to help."

Ranger Dick has run for political office in Lemon Grove; he intends to run again for mayor next February. He and Lake are "strange friends," he says. Does he hold his friend responsible? "Well, yes, for thinking that people like us in our 70s could handle this." Still, Ranger Dick is reluctant to cast the first stone. "I knew how hard he worked to get us financing. It took more than 90 days." Instead, Ranger Dick holds Lemon Grove's regulations responsible for kicking him out of the homestead and beginning his slide toward debt and homelessness.

"I hesitate on saying this, but I really feel that [Lake] is staying in good with Lemon Grove. He's helping on the destruction of the house, and I'll lose it." Is Lake doing this so he can get control of the homestead and the corner lot? He may be, says Ranger Dick. "But I can't prove it."

When I reach Lake by phone, he's uncomfortable divulging information about his client. Lake confirms that he earned the \$26,000 commission on the sale, which was 3 percent of the sale price. He also says that he doesn't "do loans" and that a mortgage broker or

brokers in Northern California, whose name or company he can't remember, "put the loan together."

When I ask if he explained the details of the loan and the payment schedule to Ranger Dick, he says, in a tired-sounding voice, "Yeah, we went through the terms of the loan. The idea was to get into this loan and then, after the rents came in, Dick could refinance and use the rent money as part of his income, which he couldn't do prior to purchasing it. We had another loan all set up, and Dick had some money put aside to carry him through until we got it refinanced. You know -- I just can't share his personal information. I just feel that this is all private stuff for Dick; I can't really comment on it. It's proprietary in nature.

"For fear of getting myself into a lawsuit, I don't want to say anything more." Lake suggests I talk with Ranger Dick's attorney, James Albert. At Ranger Dick's insistence, Albert took over advising him about the triplex's foreclosure. (Albert has not returned my calls.) "He can give you Dick's whole story better than anybody else, and I won't have gotten myself in any trouble. Being such a litigious nation that we live in today, that's the last thing I want to do -- involve myself or any of us in print."